

**REPORT OF THE AUDIT OF THE
LAWRENCE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2014**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LAWRENCE COUNTY SHERIFF

**For The Year Ended
December 31, 2014**

The Auditor of Public Accounts has completed the Lawrence County Sheriff's audit for the year ended December 31, 2014. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the receipts, disbursements, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$18,005 from the prior year, resulting in excess fees of \$41,415 as of December 31, 2014. Receipts increased by \$91,422 from the prior year and disbursements increased by \$73,417.

Report Comments:

2014-001 The Sheriff Did Not Report Salaries Accurately On Quarterly Reports
2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS	4
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	11
COMMENTS AND RECOMMENDATIONS.....	15



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying statement of receipts, disbursements, and excess fees - regulatory basis of the County Sheriff of Lawrence County, Kentucky, for the year ended December 31, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2014, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 20, 2015 on our consideration of the Lawrence County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lawrence County Sheriff's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control over financial reporting and compliance.

The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- 2014-001 The Sheriff Did Not Report Salaries Accurately On Quarterly Reports
- 2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

November 20, 2015

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2014

Receipts

Federal Grants		\$ 18,190
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		15,309
State Fees For Services:		
Finance and Administration Cabinet	\$ 64,223	
Sheriff Security Service	<u>4,239</u>	68,462
Circuit Court Clerk:		
Fines and Fees Collected	1,663	
Court Ordered Payments	<u>3,271</u>	4,934
Fiscal Court		67,527
County Clerk - Delinquent Taxes		32,972
Commission On Taxes Collected		255,179
Fees Collected For Services:		
Auto Inspections	7,520	
Accident and Police Reports	700	
Serving Papers	21,151	
Carrying Concealed Deadly Weapon Permits	<u>5,220</u>	34,591
Other:		
Add-On Fees	32,602	
Miscellaneous	<u>5,708</u>	38,310
Interest Earned		26
Borrowed Money:		
State Advancement		<u>63,000</u>
Total Receipts		598,500

The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2014
(Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 261,073
Lake Patrol	6,313
KLEFPF	15,500

Employee Benefits-

Employer's Share Social Security	26,517
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Contracted Services-

Advertising	3,464
Vehicle Maintenance and Repairs	13,416

Materials and Supplies-

Office Materials and Supplies	14,701
Uniforms	2,867

Auto Expense-

Gasoline	27,480
Transports	225
DOCJT	2,550

Other Charges-

Conventions and Travel	485
Dues	669
Postage	646
Miscellaneous	1,049

Capital Outlay-

Office Equipment	1,851	
Vehicles	29,238	\$ 408,044

Debt Service:

State Advancement	63,000
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Total Disbursements	\$ 471,044
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Net Receipts	127,456
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Less: Statutory Maximum	82,131
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Excess Fees	45,325
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Less: Training Incentive Benefit	3,910
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Excess Fees Due County for 2014	41,415
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Payment to Fiscal Court - February 17, 2015	11,248
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Balance Due Fiscal Court at Completion of Audit	\$ 30,167
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The accompanying notes are an integral part of this financial statement.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.192 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Under this regulatory basis of accounting receipts and disbursements are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2014 services
- Reimbursements for 2014 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2014

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent for the first six months and 17.67 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

LAWRENCE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2014
(Continued)

Note 3. Deposits

The Lawrence County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Lawrence County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Federal Grants

A. Lake Patrol Grant

The Lawrence County Sheriff's office contracted with the United States Army Corps of Engineers to provide patrols for Yatesville Lake throughout the year. The amount received under the contract during calendar year 2014 was \$15,520.

B. Highway Safety Grant

The Lawrence County Sheriff received a Highway Safety Grant from the Commonwealth of Kentucky, Transportation Cabinet in the amount of \$2,670.

Note 5. Drug Forfeiture Account

The Lawrence County Sheriff maintains a drug forfeiture account, funds in the account are the result of seized property from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds are to be used for law enforcement activities. The balance on January 1, 2014 was \$12,900. The Sheriff earned interest of \$14, made deposits of \$4,129, and expended \$19, leaving a balance of \$17,024 as of December 31, 2014.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Osborne, Lawrence County Judge/Executive
The Honorable Garrett Roberts, Lawrence County Sheriff
Members of the Lawrence County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the statement of receipts, disbursements, and excess fees - regulatory basis of the Lawrence County Sheriff for the year ended December 31, 2014, and the related notes to the financial statement and have issued our report thereon dated November 20, 2015. The County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Lawrence County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Lawrence County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lawrence County Sheriff's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Lawrence County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2014-001.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 20, 2015

COMMENTS AND RECOMMENDATIONS

LAWRENCE COUNTY
GARRETT ROBERTS, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2014

STATE LAWS AND REGULATIONS:

2014-001 The Sheriff Did Not Report Salaries Accurately On Quarterly Reports

We found many errors for salaries of the Sheriff and his deputies on the 4th Quarter Report sent to the Department for Local Government (DLG). KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. This uniform system of accounts, as outlined in the County Budget Preparation and State Local Finance Officer Policy Manual, requires the Sheriff to prepare a an accurate quarterly report. The Sheriff did not have procedures in place to ensure all payroll items were properly accounted for. Salaries were posted to the wrong line item in error. This resulted in the following inaccuracies on the 4th quarter report:

- Sheriff's salary was overstated by \$61,928.
- Deputies' salaries required many reclassifications between line items on the quarterly report and we had to adjust total deputies' salaries by \$6,500 in order to agree to earnings records.
- Wages posted for lake patrol did not agree to earnings records and were understated by \$3,890.

We recommend the Sheriff review quarterly reports sent to DLG and ensure that they are accurate in the future.

Sheriff's Response: No response.

INTERNAL CONTROL - MATERIAL WEAKNESS:

2014-002 The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties. Inadequate segregation of duties allows for one person to have a significant role in processing and recording receipts and disbursements, which would increase the risk that the misappropriation of assets and/or inaccurate financial reporting will occur and be undetected. The Sheriff's bookkeeper collects payments from customers, records transactions in the ledgers, prepares deposits, and reconciles the bank account. Internal control duties should be segregated to decrease the risk of misappropriation of assets, errors, and inaccurate financial reporting to external agencies. Compensating controls such as comparing the daily checkout sheet to the receipts ledger and the bank deposit can be implemented to decrease the risk present in the absence of proper segregation of duties, but they don't eliminate the lack of adequate segregation of duties. We recommend the same person not perform multiple accounting functions, and if the duties cannot be segregated, then strong oversight over the employee's work should be provided and documented.

Sheriff's Response: No response.

